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### **Fidelity Pilots Direct Indexing Offering for Advisors**

**The new custom SMA offering, an expansion of Fidelity's direct indexing lineup, will be broadly available to RIA, broker/dealer and family office clients in 2023.**

Rob Burgess | Oct 24, 2022

In keeping with an industry-wide trend, Fidelity Investments is expanding its direct indexing lineup. The company announced Monday the launch of Fidelity Institutional Custom Separately Managed Accounts (SMAs), available now for select wealth management firms and institutions.

"With Fidelity Institutional Custom SMAs, Fidelity can build and manage equity portfolios customized to investors' needs and preferences," the company said in a statement. "The lineup currently includes 10 tax-managed equity strategies, across domestic, international, global and sustainable equity exposures. As the Custom SMA offering continues to expand, it will target a range of different market exposures and can be tailored by applying tax management, excluding certain securities, sectors

or industries, and applying a sustainable overlay for security selection to incorporate personal values.”

Gary Gallagher, head of Fidelity Institutional Wealth Management & Advisory Solutions, said this announcement represented an “evolution and delivery of direct indexing in our custom SMA business for Fidelity’s intermediary business, which is RIAs, broker/dealers, family offices and essentially the intermediate audience that we cover.”

Gallagher said Fidelity’s Custom SMA lineup is rolling out to select Fidelity Institutional clearing and custody clients in the coming months, with anticipated broad availability to RIA, broker/dealer and family office clients in 2023.

“We’re moving right now into what we call the pilot phase,” said Gallagher. “It’s really this fall we’re embarking on a number of pilots and our general availability will be early next year, so first quarter of next year.”

Last September, Fidelity Institutional rolled out real-time fractional share trading of stocks and exchange traded funds for advisors who custody with the firm. The rise of fractional share trading technology has been key to bringing direct indexing downstream to retail clients and advisors, but the firm at the time said that announcement was not necessarily about a direct indexing offering.

Direct indexing, which allows investors to replicate an index by selecting and buying its components, is still a novel concept for many wealth managers.

A recent survey sponsored by Parametric Portfolio Associates, a direct indexing provider, conducted by Cerulli Associates, found that more than half of high-net-worth advisors are unfamiliar with direct indexing.

Gallagher said they had “seen this progression evolve pretty significantly even over the last year or so.”

“I would argue that a year ago direct indexing as a category was fairly nascent,” said Gallagher. “The advisors and firms that embraced direct indexing were a much (narrower) audience. And they typically were more power users once they understood it and got it. That arc has really changed over the last year. As advisors hear more about this category of personalized, customized investing, using direct indexing and preference management. It is quickly evolving.”

Gallagher said to that end, Fidelity was pursuing “an education agenda that is underfoot as we start to see a broader application of direct indexing.”

“We’ve created a team of investment specialists that actually work hand in hand with advisors to help them understand the application of direct indexing, help them understand what it means in a portfolio construction context. Also we’ve created a dedicated servicing team, so that essentially advisors interacting with our direct indexing capability are operating with a singular team instead of having to navigate an investment team and probably an operations team,” said Gallagher. “We’ve really tried to make this easier, more streamlined and certainly easier to access through our offering. ... I do think this notion of personalization and customization is a trend that’s here to stay and I think for good reason.”

Many financial services firms have made moves in recent years to either partner with, create their own, or acquire someone in the direct indexing space.

Most recently, Wheaton, Ill.-based asset management firm First Trust Capital Partners announced plans in July to acquire Veriti Management, a direct indexing asset technology company. Last December, Pershing announced it would acquire customized direct indexing provider Optimal Asset Management. In October, Vanguard said it closed on its acquisition of Just Invest, a wealth management technology company with a direct indexing offering, announced in July. Franklin Templeton announced in late September that it would acquire O’Shaughnessy Asset Management (OSAM), a quant-based money management firm that has a custom indexing platform.

Financial services firm Baird and global asset manager RiverFront Investment Holdings announced they would take minority stakes in GAMMA Investing, a woman-owned investment firm providing custom index-based separately managed accounts to financial advisors.